

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

SUPPLEMENTAL COMPLIANCE REPORT

OF

LOGANSPORT/CASS COUNTY AIRPORT AUTHORITY

CASS COUNTY, INDIANA

January 1, 2012 to December 31, 2015



FILED
06/27/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director	Timothy M. Dalton	01-01-12 to 12-31-17
Treasurer	Patrick E. McNamy	01-01-12 to 12-31-17
President of the Board	Mark Hildebrandt	01-01-12 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE LOGANSPORT/CASS COUNTY
AIRPORT AUTHORITY, CASS COUNTY, INDIANA

This report is supplemental to our examination report of the Logansport/Cass County Airport Authority (Authority), for the period from January 1, 2012 to December 31, 2015. It has been provided as a separate report so that the reader may easily identify any Examination Results and Comments that pertain to the Authority. It should be read in conjunction with our Financial Statements Examination Report of the Authority, which provides our opinion on the Authority's financial statements. This report may be found at www.in.gov/sboa.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Examination Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Official Response to the Examination Results and Comments, incorporated within this report, was not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

February 16, 2017

LOGANSPORT/CASS COUNTY AIRPORT AUTHORITY
EXAMINATION RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were performed; however, the reconciliation did not balance with the record balance. Reconciliations were not completed timely and as a result, numerous posting errors were not detected and corrected. The July 2015 through December 2015 reconcilments were not performed until August 2016.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

TIMELY DEPOSITS

Deposits were not made timely. All local tax distributions were deposited between 3 and 55 days after distribution by the County Auditor.

Similar comments appeared in prior Reports B37161 and B40579.

Indiana Code 5-13-6-1(c) states in part:

". . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ."

CONDITION OF RECORDS

Financial records presented for examination did not always provide sufficient information to verify and determine the accuracy or correctness of the transactions. Deficiencies in controls included:

1. Posting errors - checks and receipts were not always recorded in the proper amounts and in the proper funds.
2. Transactions were occasionally recorded as "negative" receipts and disbursements.
3. One deposit was generally made at the end of the month for all money received since the last monthly deposit. No detail or other documentation was presented to identify the sources of revenue for the deposit. This practice made tracing some receipts to the records difficult.
4. Payments did not always include an invoice providing documentation of the expense. An Accounts Payable Voucher (APV) was prepared for the disbursement without supporting detail in six of ten disbursements tested.

Tickets, goods for sale, billings, and other collections, are considered accountable items for which a corresponding deposit must be made in the bank accounts of the unit. The deposit ticket or attached documentation must provide a detailed listing of the deposit which includes at a minimum, check numbers and corresponding names of the payers. (Accounting and Uniform Guidelines Manual for Special Districts, Chapter 1)

LOGANSPORT/CASS COUNTY AIRPORT AUTHORITY
EXAMINATION RESULTS AND COMMENTS
(Continued)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Guidelines Manual for Special Districts, Chapter 1)

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

ANNUAL FINANCIAL REPORT

The Annual Financial Reports (AFR) for 2012, 2013, 2014, and 2015 were not timely submitted. The due dates, dates submitted, and number of days the reports were late were as follows:

AFR Reporting Year	Due Date	Date Submitted	Days Late
2012	03-01-13	01-09-17	1,411
2013	03-01-14	10-08-14	222
2014	03-01-15	11-02-15	247
2015	02-29-16	12-29-16	305

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

LOGANSPORT/CASS COUNTY AIRPORT AUTHORITY
EXAMINATION RESULTS AND COMMENTS
(Continued)

CERTIFIED REPORT FILED AFTER DUE DATE

The Airport Authority did not timely file a Certified Report of Names, Addresses, Duties and Compensation of Public Employees (Form 100-R) with the Indiana State Board of Accounts for 2014 and 2015. The 2014 report was filed on February 6, 2015, which was five days past the due date. The 2015 report was filed February 4, 2016, which was three days past the due date.

Indiana Code 5-11-13-1 states in part:

"Every state, county, city, town, township, or school official . . . shall during the month of January of each year prepare, make, and sign a certified report, correctly and completely showing the names and business addresses of each and all officers, employees, and agents . . . and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts."

APPROPRIATIONS

The records presented for examination indicated the following expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Years</u>	<u>Excess Amount Expended</u>
General Operating	2013	\$ 4,262
Debt Service	2015	1,593

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

DEBIT CARD

The Airport Authority used a debit card to purchase items without an approved debit card policy.

The SBOA will not take exception to the use of debit/procurement cards by a unit provided the following criteria are observed:

1. The governing board must authorize debit/procurement use through an ordinance/ resolution, which has been approved in a meeting and documented in the minutes.
2. Issuance and use must be handled by an official or employee designated by the governing body.
3. The purposes for which the debit/procurement card may be used must be specifically stated in the ordinance/resolution.
4. When the purpose for which the debit/procurement card has been issued has been accomplished, the card must be returned to the custody of the responsible person.

LOGANSPORT/CASS COUNTY AIRPORT AUTHORITY
EXAMINATION RESULTS AND COMMENTS
(Continued)

5. The designated responsible official or employee must maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned.
6. Debit/procurement cards must not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing body and other officials with timely and accurate accounting information and monitoring of the accounting system.

(Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

RENTAL CONTRACTS OR AGREEMENTS

Receipts totaling \$14,280, \$19,280, \$20,540, and \$18,027 were received during the years 2012, 2013, 2014, and 2015, respectively, for hanger rentals without the presence of any contracts, agreements, or customer ledgers. Records designed to identify the amount received for each rental and/or to indicate if rental amount was paid in full were not presented for examination.

Payments made or received for contractual services should be supported by a written contract. Each unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

OVERDRAWN FUND BALANCES

The financial statements presented in the Financial Statements Examination Report included the following funds with overdrawn balances at year end:

Fund	Amount Overdrawn	
	2013	2014
Aviation Fuels Rotary Fund	\$ 6,109	\$ -
Aircraft Rental Fund	4,970	14,158
Capital Bond	12,824	-

The balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

PENALTIES, INTEREST, AND OTHER CHARGES

The Airport Authority paid penalties, interest, and other charges to Internal Revenue Service and Indiana Department of Revenue in the amount of \$14,472 and \$3,165, respectively, because payments were not remitted on a timely basis.

LOGANSPORT/CASS COUNTY AIRPORT AUTHORITY
EXAMINATION RESULTS AND COMMENTS
(Continued)

A similar comment appeared in Special Investigation Report B48307.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the unit. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the unit. Any penalties, interest or other charges paid by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 1)

VENDING, CONCESSIONS, OR OTHER SALES CONTROLS

Information presented for examination indicated the Airport Authority did not have sufficient internal controls and accounting procedures in place over the sale of soft drinks and snacks. Vending sales totaling \$6,498 were not receipted to the ledger or deposited to the bank during the examination period.

A similar comment appeared in Special Investigation Report B48307.

The Accounting and Uniform Compliance Guidelines Manual for Special Districts states in Chapter 1:

"There must be a clearly defined procedure adopted by the unit concerning placement, use, maintenance, commissions, and profits of vending machines on their property.

All revenues generated and costs incurred in operating vending machines located on the unit's premises must be accounted for through the unit's records.

If vending machines are located in restricted areas (area other than those available to the public) and if the governing body and fiscal officer wish for those revenues to be restricted for the use and benefit of those employees who use the machines and generate the revenues, the SBOA takes no exception to such action in an engagement. The decisions must be authorized by proper resolution/ordinance of the governing body.

If vending machines are located in areas where the public makes use of the machines and generates the resulting revenues, we advise officials to place the revenues in the general fund. Any alternative procedure must be authorized by resolution/ordinance of the governing body."

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

LOGANSPORT/CASS COUNTY AIRPORT AUTHORITY
EXAMINATION RESULTS AND COMMENTS
(Continued)

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

OVERPAYMENT

On March 21, 2013, a refund of check \$17,020 was received from an insurance company due to an overpayment. Upon inquiry and investigation, it was determined that on January 8, 2013, and February 25, 2013, checks for \$14,120 and \$15,422, respectively, were sent to the insurance company for property insurance. However, invoices or other documentation was not presented to support the payments or to determine the proper cost of the annual insurance coverage.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Guidelines Manual for Special Districts, Chapter 1)

Board of Directors

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27 March 2017

OFFICIAL RESPONSE

**State Board of Accounts
302 West Washington Street, Room E 418
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In response to information disclosed at an exit interview conducted March 15, 2017 at Logansport and Cass County Airport Authority (LCCAA) in Logansport Indiana regarding an audit of the LCCAA for the periods of January 1, 2012 through January 31, 2015, the following response and comments are provided:

An LCCAA Board Director contacted a member of the SBOA staff last fall expressing concerns about LCCAA accounting practices, which triggered an audit. All members of the LCCAA Board were supportive of this action, both before the audit was announced and upon learning an audit would be conducted.

Prior to contacting the SBOA, LCCAA Board members had been meeting with LCCAA staff to review and examine financial records, as well as bookkeeping and accounting record keeping practices and policies. These meetings occurred weekly over the course of many months.

Weekly meetings continued during the audit period that began in the fall of 2016, through February of this year. These meetings are scheduled to continue until such time that the LCCAA Board of Directors are satisfied that new and updated policies and procedures have been adequately crafted, and formally adopted with sufficient reporting controls to verify compliance and accuracy so that policies and procedures are being continuously followed by staff members responsible to follow the policies instituted.

The main thrust of these policies is to correct deficiencies documented in the LCCAA audit exit interview regarding banking account reconciliations, timely deposits, condition of records, annual reporting, certified reports filed past deadlines, official bond information not filed as required, expenditures in excess of appropriated budget amounts, no debit card policy, lack of rental contracts/agreements, overdrawn fund balances, penalties/interest and other charges not authorized to be paid, inadequate vending and concession control policies, and overpayments that were made.

LCCAA recently conducted training of staff and some board members to better understand and use the Keystone Software system by retaining a Keystone Software representative for a half-day training session. This training was conducted March 7, 2107.

The LCCAA Board of Directors understands the need for both new and updated policies and procedures, as well as reporting requirements to confirm and verify that the improved policies and procedures are being followed. These policies and procedures will be included with other policies and procedures to produce an LCCAA Operations Manual. Key provisions for all policies and procedures include adequate checks and balances on how funds and transactions are managed and documented, as well as adoption of reporting procedures to ensure the LCCAA Board confirms and verifies that adequate documentation exists to comply with statutory requirements for the satisfactory management of public funds, and that adequate documentation exists to facilitate the SBOA to efficiently test any and all transactions to assure compliance with Indiana Statutes.

To date, we have drafted new policies for; documenting receipt of all mail received via USPS, debit card transactions, accounts payable procedures, accounts receivable procedures, cash receipts, hangar (rent) billings and contracts, credit card sales reconciliation with log spreadsheet, and rotating fuel fund log spreadsheet.

The above list of new policies is not a complete list of what is required. It is a list of policies drafted to be included with other policies and procedures to form a comprehensive Operations Manual. It is the board's intent to complete, adopt and institute this manual by October 1, 2017.

The LCCAA Board of Directors sincerely appreciates the professionalism and patience we received from the SBOA audit staff. Our goal is to make the next audit much more transparent and efficient, with results that show conformance to Indiana statutory requirements.

Sincerely,



Mark Hildebrandt
President, LCCAA

Cc: LCCA Board Members
Counsel – Donald Tribbett

LOGANSPORT/CASS COUNTY AIRPORT AUTHORITY
EXIT CONFERENCE

The contents of this report were discussed on March 15, 2017, with Timothy M. Dalton, Director; Mark Hildebrandt, President of the Board; David Brumett, Board member; and Robert Barr, Board member.